

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Romulus, Michigan</u>	County Wayne
Audit Date June 30, 2005	Opinion Date November 1, 2005	Date Accountant Report Submitted To State: December 29, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48034
Accountant Signature <i>Plante & Moran, PLLC</i>			

City of Romulus, Michigan

Financial Report with Supplemental Information June 30, 2005

City of Romulus, Michigan

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Romulus, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Romulus, Michigan as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Romulus, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Romulus, Michigan as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules as identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

A member of



A worldwide association of independent accounting firms

To the Honorable Mayor and
Members of the City Council
City of Romulus, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Romulus, Michigan's basic financial statements. The accompanying other supplemental information as identified in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The combining statements included in other supplemental information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2005 on our consideration of the City of Romulus, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Plante & Moran, PLLC

November 1, 2005

City of Romulus, Michigan

Management's Discussion and Analysis

The following discussion and analysis of the City of Romulus, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the City's financial statements.

Financial Highlights

The following represents the most significant financial highlights for the year ended June 30, 2005:

- Again this year, state-shared revenue was reduced by the State of Michigan by approximately \$59,126. This represents a 2.5 percent decrease from the prior year and a decrease of 22.1 percent from 2001.
- Property taxes are the City's single, largest source of revenue. The City's taxable value for fiscal year 2004/2005 was \$1,235,103,619, which represents an increase of \$104,935,037 or 9.3 percent.
- Per the Development Agreement the City of Romulus has with Metro World Centre, through the sale of property, the City received a one-time revenue of \$225,567.
- During fiscal year 2004/2005, the City initiated a chargeback system, by way of an administration fee, to reimburse the General Fund for payroll, personnel, and purchasing services. This system generated additional revenue of \$164,832.
- Due to rising interest rates, investment income increased by \$86,394.
- Public safety costs increased by approximately \$678,000; however, this was primarily due to the settlement of outstanding labor contracts, which resulted in substantial retroactive labor costs.
- In April 2003, the State law that regulates the distribution of airport parking fees was amended to provide the City of Romulus with consistent annual revenue of \$1,500,000. This funding will be in place for approximately 20 years or until debt service for designated State bonds has been paid off. Due to timing based upon the implementing language of these amendments, the General Fund received revenue of only \$578,372 in fiscal year 2002/2003. In fiscal year 2003/2004, there was a revenue catch-up adjustment, which resulted in the General Fund receiving \$2,757,488. It appears as if there was a substantial reduction in intergovernmental revenues in 2004/2005; in actuality, it was due to the aforementioned timing difference.

City of Romulus, Michigan

Management's Discussion and Analysis (Continued)

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report City operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

The City as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2005 and June 30, 2004 (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets						
Current assets	\$ 12,507	\$ 14,181	\$ 11,615	\$ 10,685	\$ 24,122	\$ 24,866
Noncurrent assets	42,915	44,474	53,695	53,548	96,610	98,022
Total assets	55,422	58,655	65,310	64,233	120,732	122,888
Liabilities						
Current liabilities	2,701	2,918	3,805	3,601	6,506	6,519
Long-term liabilities	5,980	6,436	26,702	28,332	32,682	34,768
Total liabilities	8,681	9,354	30,507	31,933	39,188	41,287
Net Assets						
Invested in capital assets -						
Net of related debt	37,206	38,133	25,320	23,576	62,526	61,709
Restricted	4,229	3,433	5,926	5,682	10,155	9,115
Unrestricted	5,306	7,735	3,557	3,042	8,863	10,777
Total net assets	\$ 46,741	\$ 49,301	\$ 34,803	\$ 32,300	\$ 81,544	\$ 81,601

The City's combined net assets decreased slightly by \$57,000. The net assets of the governmental activities decreased by \$2.5 million or 5.2 percent and business-type activities increased \$2.5 million or 7.7 percent. The decreases in the governmental activities were primarily a result of an increase in depreciation costs and compensated absences. The increases in business activities were primarily due to capital contributions and nonoperating revenue.

City of Romulus, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets during the current year (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Net Assets - Beginning of year	\$ 49,301	\$ 47,106	\$ 32,300	\$ 31,995	\$ 81,601	\$ 79,101
Revenue						
Program revenue:						
Charges for services	4,119	4,198	9,405	8,187	13,524	12,385
Operating grants and contributions	2,703	2,240	12	-	2,714	2,240
Capital grants and contributions	895	4,787	843	10	1,738	4,797
General revenue:						
Property taxes:						
City	9,570	8,817	-	-	9,570	8,817
Sanitation	640	621	-	-	640	621
Street lighting	327	326	-	-	327	326
EPA	-	-	2,586	1,765	2,586	1,765
State-shared revenue	4,071	5,579	-	-	4,071	5,579
Unrestricted investment earnings	342	216	76	114	418	330
Loss on sale of capital assets	(32)	366	-	-	(32)	366
Miscellaneous revenue	1,025	1,060	59	50	1,084	1,110
Total revenue	23,660	28,210	12,980	10,126	36,640	38,336
Program Expenses						
General government	4,186	4,243	-	-	4,186	4,243
Public safety	10,306	9,628	-	-	10,306	9,628
Public works	10,056	10,364	-	-	10,056	10,364
Health and welfare	212	218	-	-	212	218
Community and economic development	378	512	-	-	378	512
Recreation and culture	820	901	-	-	820	901
Interest on long-term debt	262	149	-	-	262	149
Water and sewer	-	-	10,478	9,821	10,478	9,821
Total program expenses	26,220	26,015	10,478	9,821	36,698	35,836
Change in Net Assets	(2,560)	2,195	2,502	305	(58)	2,500
Net Assets - End of year	<u>\$ 46,741</u>	<u>\$ 49,301</u>	<u>\$ 34,803</u>	<u>\$ 32,300</u>	<u>\$ 81,544</u>	<u>\$ 81,601</u>

Governmental Activities

The City's total governmental revenues decreased by approximately \$4.5 million, despite an increase in property taxes. The decrease, which represents 4.5 percent of total revenues, was due primarily to the decrease in infrastructure donated by developers within this fiscal year.

Expenses increased marginally, by less than 1 percent, even though there were increases in health care costs and other personnel-related items.

City of Romulus, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund. We provide water to residents from the Detroit Water System. We provide sewage treatment through Wayne County Downriver Sewage Disposal System and Rouge Valley Sewage Disposal System. Although water and sewer rates had been adjusted in July 2004, there was an operating loss again this year.

The City's Funds

The analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The City's major funds for 2005 include the General Fund and the Water and Sewer Fund. The Water and Sewer Fund is described above.

The General Fund pays for most of the City's governmental services. The most noteworthy are police and fire, which incurred expenses of approximately \$10 million in 2005. Additionally, the building and grounds department is significant in that it contains 12 percent of the total General Fund expenditures.

General Fund Budgetary Highlights

As previously stated, the City of Romulus has maintained a stable fund balance even though several revenue sources have been declining or stagnant and legacy costs have continued to rise. It must be understood that we must continue to closely monitor expenditures and enhance revenues in order to maintain a positive fund balance.

City of Romulus, Michigan

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

The City has several construction projects in various stages of completion. The design engineering for the Wahrman Road Reconstruction Project within the TIFA Fund is near completion. The Merriman Road Enhancement Project is a project within the TIFA District that is utilizing grant funds and tax captures to provide street lighting, sidewalks, and landscape improvements. This project is in its final stages and should be completed by spring of 2006. The City is also in the process of building a new senior center, which is a 15,400 square foot facility housing the administrative staff and programming for seniors. This building also includes multi-purpose space to be utilized by Romulus residents for a variety of social uses. Its grand opening is scheduled for January 2006. A 20-year bond was sold to fund the senior center, which will be repaid with funds pledged by the Romulus Downtown Development Authority and Community Development Block Grant funds. The Tax Increment Finance Authority has purchased a 40,000 square foot vacant industrial building and 16½ acres for the purpose of constructing an 88,000 square foot recreation center. This facility will house an aquatic complex; fitness area; walking track; multi-purpose space; and administrative offices to be utilized by the residents and businesses within the City of Romulus. This project is under design and construction is intended to start in early 2006. Future tax increments will be pledged for the construction cost.

Economic Factors and Next Year's Budgets and Rates

The City's budget for next year requires \$1.2 million of fund balance in order to provide a balanced budget. Because of reductions in several of the City's major revenue sources, the City needs to continue to watch its budget very closely.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the administration offices at City Hall.

City of Romulus, Michigan

Statement of Net Assets June 30, 2005

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 6,078,145	\$ 2,036,731	\$ 8,114,876	\$ 10,541,773
Receivables - Net (Note 4)	4,504,345	2,597,391	7,101,736	24,764
Accounts receivable from component units (Note 6)	569,010	36,426	605,436	-
Accounts receivable from primary government (Note 6)	-	-	-	12,890
Due from other governmental units	1,248,034	145,736	1,393,770	56,739
Inventories	100,383	57,269	157,652	-
Prepaid costs and other assets	7,230	-	7,230	-
Restricted assets (Note 7)	-	6,742,119	6,742,119	2,685,426
Capital assets - Net (Note 5):				
Assets not being depreciated	5,847,843	1,708,110	7,555,953	5,187,200
Assets being depreciated	37,066,805	51,986,654	89,053,459	130,889
Total assets	55,421,795	65,310,436	120,732,231	18,639,681
Liabilities				
Accounts payable	903,534	1,367,877	2,271,411	967,144
Accrued and other liabilities	422,971	588,097	1,011,068	503,768
Retainage payable	10,284	-	10,284	106,415
Customer deposits payable	-	53,762	53,762	-
Claims payable	521	-	521	-
Accounts payable to primary government (Note 6)	-	-	-	605,436
Accounts payable to component units (Note 6)	12,890	-	12,890	-
Due to other governmental units	8,209	-	8,209	105,023
Deferred revenue (Note 4)	41,073	-	41,073	-
Compensated absences due within one year	722,647	98,349	820,996	19,002
Debt obligations due within one year (Note 8)	578,690	1,696,903	2,275,593	1,385,000
Noncurrent liabilities:				
Accrued liabilities due in more than one year	372,246	-	372,246	-
Compensated absences due in more than one year	478,072	24,587	502,659	4,751
Debt obligations due in more than one year (Note 8)	5,130,125	26,677,848	31,807,973	11,860,000
Total liabilities	8,681,262	30,507,423	39,188,685	15,556,539
Net Assets				
Invested in capital assets - Net of related debt	37,205,833	25,320,013	62,525,846	(5,773,270)
Restricted:				
Streets and highways	1,632,876	-	1,632,876	-
Debt service	1,582,923	5,925,646	7,508,569	-
Other purposes	1,013,160	-	1,013,160	-
Unrestricted	5,305,741	3,557,354	8,863,095	8,856,412
Total net assets	\$ 46,740,533	\$ 34,803,013	\$ 81,543,546	\$ 3,083,142

City of Romulus, Michigan

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and Contributions	and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 4,187,032	\$ 1,144,851	\$ 133,305	\$ -
Public safety	10,305,516	1,112,049	546,696	12,297
Public works	10,055,910	1,790,786	1,742,249	882,630
Health and welfare	212,148	-	-	-
Community and economic development	377,787	-	280,259	-
Recreation and culture	819,516	71,673	-	-
Interest on long-term debt	261,958	-	-	-
Total governmental activities	26,219,867	4,119,359	2,702,509	894,927
Business-type activities - Water and sewer	10,477,885	9,405,093	12,545	842,936
Total primary government	<u>\$ 36,697,752</u>	<u>\$ 13,524,452</u>	<u>\$ 2,715,054</u>	<u>\$ 1,737,863</u>
Component units:				
Tax Increment Financing Authority	\$ 1,513,387	\$ -	\$ 53,656	\$ -
Downtown Development Authority	683,667	-	1,135	165,500
Economic Development Corporation	1,087	-	-	-
Total component units	<u>\$ 2,198,141</u>	<u>\$ -</u>	<u>\$ 54,791</u>	<u>\$ 165,500</u>
General revenue:				
Property taxes:				
City				
Sanitation				
Street lighting				
EPA				
Component unit				
State-shared revenues				
Unrestricted investment earnings				
Loss on sale of capital assets				
Miscellaneous				
Total general revenue				
Change in Net Assets				
Net Assets (Deficit) - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2005

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (2,908,876)	\$ -	\$ (2,908,876)	\$ -
(8,634,474)	-	(8,634,474)	-
(5,640,245)	-	(5,640,245)	-
(212,148)	-	(212,148)	-
(97,528)	-	(97,528)	-
(747,843)	-	(747,843)	-
(261,958)	-	(261,958)	-
(18,503,072)	-	(18,503,072)	-
-	(217,311)	(217,311)	-
(18,503,072)	(217,311)	(18,720,383)	-
-	-	-	(1,459,731)
-	-	-	(517,032)
-	-	-	(1,087)
-	-	-	(1,977,850)
9,569,744	-	9,569,744	-
639,642	-	639,642	-
327,486	-	327,486	-
-	2,586,132	2,586,132	-
-	-	-	5,660,380
4,071,310	-	4,071,310	-
342,033	75,543	417,576	228,602
(32,037)	-	(32,037)	-
1,024,130	58,818	1,082,948	333
15,942,308	2,720,493	18,662,801	5,889,315
(2,560,764)	2,503,182	(57,582)	3,911,465
49,301,297	32,299,831	81,601,128	(828,323)
\$ 46,740,533	\$ 34,803,013	\$ 81,543,546	\$ 3,083,142

City of Romulus, Michigan

Governmental Funds Balance Sheet June 30, 2005

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash and investments	\$ 1,408,509	\$ 2,996,742	\$ 4,405,251
Receivables - Net	2,582,863	1,861,672	4,444,535
Prepaid costs and other assets	6,283	-	6,283
Due from other funds	-	35,112	35,112
Accounts receivable from component units (Note 6)	514,382	54,628	569,010
Due from other governmental units	525,505	301,168	826,673
Inventories	26,174	46,961	73,135
Total assets	\$ 5,063,716	\$ 5,296,283	\$ 10,359,999
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 322,365	\$ 545,216	\$ 867,581
Accrued and other liabilities	328,915	85,484	414,399
Retainage payable	-	10,284	10,284
Due to other funds (Note 6)	31,731	25,954	57,685
Accounts payable to component units (Note 6)	11,871	1,019	12,890
Due to other governmental units	8,209	-	8,209
Deferred revenue (Note 4)	1,420,947	1,729,854	3,150,801
Total liabilities	2,124,038	2,397,811	4,521,849
Fund Balances			
Reserved (Note 9)	37,667	524,191	561,858
Unreserved - Designated for subsequent year's expenditures - Reported in:			
General Fund	1,215,347	-	1,215,347
Special Revenue Funds	-	1,259,761	1,259,761
Debt Service Funds	-	34,871	34,871
Unreserved - Undesignated:			
General Fund	1,686,664	-	1,686,664
Special Revenue Funds	-	850,591	850,591
Debt Service Funds	-	16,189	16,189
Capital Projects Fund	-	212,869	212,869
Total fund balances	2,939,678	2,898,472	5,838,150
Total liabilities and fund balances	\$ 5,063,716	\$ 5,296,283	\$ 10,359,999

City of Romulus, Michigan

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets Year Ended June 30, 2005

Fund Balances - Total Governmental Funds \$ 5,838,150

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds 39,613,022

Special assessment and Metro World Centre, Ltd. receivables are expected to be collected over the next several years and are not available to pay current year expenditures 2,620,434

Grant revenue and delinquent personal property tax not collected within 60 days of year end are recognized as revenue in the statement of net assets, but shown as deferred revenue in the funds 910,655

Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:

Compensated absences	(1,163,040)
Judgments	(372,246)
Long-term debt and accrued interest	(4,905,000)

Internal Service Funds are also included as governmental activities 4,198,558

Change in Net Assets of Governmental Activities \$ 46,740,533

City of Romulus, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2005

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenue			
Property taxes	\$ 9,566,686	\$ 970,186	\$ 10,536,872
Licenses and permits	1,566,526	-	1,566,526
Federal sources	148,431	521,168	669,599
Intergovernmental revenues	4,309,288	1,493,371	5,802,659
Charges for services	1,757,529	-	1,757,529
Fines and forfeitures	792,643	139,569	932,212
Investment income	250,475	68,076	318,551
Other	435,694	604,994	1,040,688
Total revenue	18,827,272	3,797,364	22,624,636
Expenditures			
Current:			
Legislative	63,390	-	63,390
General government	5,716,879	178,740	5,895,619
Public safety	11,022,744	285,628	11,308,372
Public works	651,639	3,390,713	4,042,352
Health and welfare	462,635	-	462,635
Recreation and culture	850,714	280,493	1,131,207
Debt service	-	319,266	319,266
Total expenditures	18,768,001	4,454,840	23,222,841
Excess of Revenue Over (Under) Expenditures	59,271	(657,476)	(598,205)
Other Financing Sources (Uses)			
Proceeds from the sale of bonds	-	2,076,673	2,076,673
Amounts deposited with escrow agent	-	(2,321,752)	(2,321,752)
Transfers in	-	819,320	819,320
Transfers out	(390,906)	(428,414)	(819,320)
Total other financing sources (uses)	(390,906)	145,827	(245,079)
Net Change in Fund Balances	(331,635)	(511,649)	(843,284)
Fund Balances - Beginning of year	3,271,313	3,410,121	6,681,434
Fund Balances - End of year	<u>\$ 2,939,678</u>	<u>\$ 2,898,472</u>	<u>\$ 5,838,150</u>

City of Romulus, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds \$ (843,284)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	346,102
Capital contributions from TIFA and outside developers are not a current financial resource	882,630
Depreciation on capital assets reported on governmental funds report as capital outlays expenditures	(2,532,170)
Loss and proceeds on sale of capital assets is not reported in the governmental funds	(50,857)
Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end	(85,476)
Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (GASB No. 33)	(120,722)
Proceeds from the issuance of bonds is an other financing source in the governmental funds, but not in the statement of activities (where it increases long-term debt)	(2,080,000)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	2,395,000
Increase in accumulated employee sick and vacation pay is recorded when earned in the statement of activities	(342,327)
Internal Service Funds are also included as governmental activities	(129,660)

Change in Net Assets of Governmental Activities \$ (2,560,764)

City of Romulus, Michigan

Proprietary Funds Statement of Net Assets June 30, 2005

	Enterprise Fund - Water and Sewer Fund	Internal Service Funds
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,036,731	\$ 1,672,894
Receivables - Net	2,597,391	59,810
Due from other funds (Note 6)	-	22,573
Accounts receivable from component units (Note 6)	36,426	-
Due from other governmental units	145,736	-
Inventories	57,269	28,195
Total current assets	4,873,553	1,783,472
Noncurrent assets:		
Restricted assets	6,742,119	-
Capital assets	53,694,764	3,301,626
Total noncurrent assets	60,436,883	3,301,626
Total assets	65,310,436	5,085,098
Liabilities		
Current liabilities:		
Accounts payable	1,367,877	35,953
Accrued and other liabilities	588,097	8,572
Customer deposits payable	53,762	-
Claims payable	-	521
Current portion of compensated absences	98,349	30,143
Current portion of long-term debt	1,696,903	188,690
Total current liabilities	3,804,988	263,879
Noncurrent liabilities:		
Provision for compensated absences - Net of current portion	24,587	7,536
Long-term debt - Net of current portion	26,677,848	615,125
Total noncurrent liabilities	26,702,435	622,661
Total liabilities	30,507,423	886,540
Net Assets		
Invested in capital assets - Net of related debt	25,320,013	2,497,811
Restricted for debt service	5,925,646	-
Unrestricted	3,557,354	1,700,747
Total net assets	<u>\$ 34,803,013</u>	<u>\$ 4,198,558</u>

City of Romulus, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2005

	Enterprise Fund - Water and Sewer Fund	Internal Service Funds
Operating Revenue		
Charges for services	\$ 9,107,302	\$ 2,084,826
Federal sources	12,545	2,188
Other charges for services	77,760	61,618
	<hr/>	<hr/>
Total operating revenue	9,197,607	2,148,632
Operating Expenses		
Administrative charges	940,795	-
Salaries	1,000,907	352,937
Sewer and water disposal	4,986,872	-
Operating supplies	94,724	23,878
Repairs and maintenance	124,859	295,514
Gas and oil	-	213,669
Insurance	86,700	795,482
Fringe benefits	471,260	158,789
Equipment rental	379,972	-
Miscellaneous	23,145	15,320
Depreciation	1,494,454	269,041
Contractual services	142,324	86,638
Claims and legal	-	53,410
	<hr/>	<hr/>
Total operating expenses	9,746,012	2,264,678
Operating Loss	(548,405)	(116,046)
Nonoperating Revenue (Expense)		
Property taxes	2,586,132	-
Investment income	75,902	23,482
Interest expense	(731,873)	(43,544)
Debt service charges	286,805	-
Gain on disposal of assets	-	6,448
	<hr/>	<hr/>
Total nonoperating revenue (expense)	2,216,966	(13,614)
Change in Net Assets - Before capital contributions	1,668,561	(129,660)
Capital Contributions	834,621	-
Net Assets - Beginning of year	32,299,831	4,328,218
	<hr/>	<hr/>
Net Assets - End of year	<u>\$ 34,803,013</u>	<u>\$ 4,198,558</u>

City of Romulus, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2005

	Enterprise Fund - Water and Sewer Fund	Internal Service Funds
Cash Flows from Operating Activities		
Receipts from customers	\$ 8,537,099	\$ 2,098,175
Payments to suppliers	(6,527,725)	(1,490,365)
Payments to employees	(1,572,788)	(514,354)
Net cash provided by operating activities	436,586	93,456
Cash Flows from Capital and Related Financing Activities		
Proceeds from the sale of fixed assets	-	21,897
Proceeds from property tax levy - Restricted for debt service	2,586,132	-
Proceeds from issuance of long-term debt	-	-
Payments to County from Debt Service Fund	(1,589,167)	-
Principal paid on long-term debt	(7,696)	(317,858)
Interest paid on long-term debt	(731,873)	(43,544)
Debt service charges	286,805	-
Purchase of capital assets	(806,528)	(79,051)
Net cash used in capital and related financing activities	(262,327)	(418,556)
Cash Flows from Investing Activities - Investment income	75,902	23,482
Net Increase (Decrease) in Cash and Cash Equivalents	250,161	(301,618)
Cash and Cash Equivalents - Beginning of year	8,528,689	1,974,512
Cash and Cash Equivalents - End of year	\$ 8,778,850	\$ 1,672,894
Balance Sheet Classification of Cash and Cash Equivalents		
Cash and investments	\$ 2,036,731	\$ 1,672,894
Restricted investments (Note 3)	6,742,119	-
Total cash and cash equivalents	\$ 8,778,850	\$ 1,672,894
Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating loss	\$ (548,405)	\$ (116,046)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation	1,494,454	269,041
Changes in assets and liabilities:		
Receivables	(514,382)	(50,456)
Due from other governmental units	(145,736)	-
Inventory	(20,608)	10,737
Accounts payable	328,706	(17,192)
Accrued and other liabilities	(157,443)	(2,628)
Net cash provided by operating activities	\$ 436,586	\$ 93,456

Noncash Capital and Related Financing Activities - During the year, \$834,621 of sewer line additions were donated from outside sources. The sewer line additions were recorded as a fixed asset addition within the Water and Sewer Fund.

City of Romulus, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2005

	Pension and Other Employee Benefits Trust Retirees' Insurance Benefits Fund	Agency Funds
Assets		
Cash and investments	\$ 1,908,469	\$ 3,779,824
Accounts receivable	51,270	163,880
Due from other governmental units	-	258,669
Total assets	1,959,739	<u>\$ 4,202,373</u>
Liabilities		
Accounts payable	-	\$ 641
Due to other governmental units	-	990,513
Accrued and other liabilities	-	3,211,219
Total liabilities	-	<u>\$ 4,202,373</u>
Net Assets - Held in trust for employee benefits	<u>\$ 1,959,739</u>	

City of Romulus, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2005

	Pension and Other Employee Benefits Trust Retirees' Insurance Benefits Fund
Additions	
Investment income:	
Interest income	\$ 21,416
Net increase in fair value of investments	<u>7,282</u>
Total investment income	28,698
Contributions - Employer	<u>536,760</u>
Total additions	565,458
Deductions - Benefit payments	<u>510,436</u>
Net Increase in Net Assets Held for Retirees' Insurance Benefits	55,022
Net Assets Held in Trust for Retiree Insurance Benefits	
Beginning of year	<u>1,904,717</u>
End of year	<u><u>\$ 1,959,739</u></u>

City of Romulus, Michigan

Component Units Statement of Net Assets (Deficit) June 30, 2005

	Tax Increment Finance Authority	Downtown Development Authority	Economic Development Corporation	Totals
Assets				
Cash and investments	\$ 10,048,788	\$ 490,557	\$ 2,428	\$ 10,541,773
Receivables - Accrued interest	24,764	-	-	24,764
Due from other governmental units	54,427	2,312	-	56,739
Receivable from primary government (Note 6)	-	12,890	-	12,890
Restricted assets	-	2,685,426	-	2,685,426
Capital assets	3,439,567	1,878,522	-	5,318,089
Total assets	13,567,546	5,069,707	2,428	18,639,681
Liabilities				
Accounts payable	309,210	657,934	-	967,144
Accrued and other liabilities	502,043	1,725	-	503,768
Retainage payable	-	106,415	-	106,415
Payable to primary government (Note 6)	584,490	20,857	89	605,436
Due to other governmental units	102,950	2,073	-	105,023
Compensated absences:				
Due within one year	10,915	8,087	-	19,002
Due in more than one year	2,729	2,022	-	4,751
Bonds payable:				
Due within one year	910,000	475,000	-	1,385,000
Due in more than one year	7,160,000	4,700,000	-	11,860,000
Total liabilities	9,582,337	5,974,113	89	15,556,539
Net Assets (Deficit)				
Invested in capital assets - Net of related debt	(4,630,433)	(1,142,837)	-	(5,773,270)
Unrestricted	8,615,642	238,431	2,339	8,856,412
Total net assets (deficit)	<u>\$ 3,985,209</u>	<u>\$ (904,406)</u>	<u>\$ 2,339</u>	<u>\$ 3,083,142</u>

City of Romulus, Michigan

		Program Revenues		
			Operating	
	Expenses	Charges for Services	Grants/Contributions	Capital Grants/Contributions
Tax Increment Finance Authority - Public works	\$ 1,513,387	\$ -	\$ 53,656	\$ -
Downtown Development Authority - Public works	683,667	-	1,135	165,500
Economic Development Corporation - Community development	<u>1,087</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>\$ 2,198,141</u>	<u>\$ -</u>	<u>\$ 54,791</u>	<u>\$ 165,500</u>

General revenues:

Property taxes

Interest income and other

Total general revenues

Change in Net Assets

Net Assets (Deficit) - Beginning of year

Net Assets (Deficit) - End of year

**Component Units
Statement of Activities
Year Ended June 30, 2005**

Net (Expense) Revenue and Changes in Net Assets			
Tax Increment Finance Authority	Downtown Development Authority	Economic Development Corporation	Total
\$ (1,459,731)	\$ -	\$ -	\$ (1,459,731)
-	(517,032)	-	(517,032)
-	-	(1,087)	(1,087)
(1,459,731)	(517,032)	(1,087)	(1,977,850)
4,988,465	671,915	-	5,660,380
182,084	46,838	13	228,935
5,170,549	718,753	13	5,889,315
3,710,818	201,721	(1,074)	3,911,465
274,391	(1,106,127)	3,413	(828,323)
\$ 3,985,209	\$ (904,406)	\$ 2,339	\$ 3,083,142

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Romulus, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used:

Reporting Entity

The City of Romulus, Michigan is governed by an elected seven-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

Blended Component Units

The City of Romulus Building Authority is governed by a five-member board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings.

Discretely Presented Component Units

The following component units are reported within the component units column to emphasize that they are legally separate from the City.

The Economic Development Corporation (the "Corporation") was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The Corporation's governing body, which consists of nine individuals, is appointed by the mayor with the approval of the City Council.

The Downtown Development Authority (the "Development Authority") was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Development Authority's governing body, which consists of seven individuals, is appointed by the mayor with the approval of the City Council. In addition, the Development Authority's budget is subject to approval by the City Council.

Note 1 - Summary of Significant Accounting Policies (Continued)

The Tax Increment Finance Authority (the "Finance Authority") was created to promote growth. The Finance Authority's governing body, which consists of 13 individuals, is appointed by the mayor with the approval of the City Council. In addition, the Finance Authority's budget is subject to approval by the City Council.

The Brownfield Redevelopment Authority (the "Brownfield Authority") was created to promote growth by encouraging the correction of environmental damage. The Brownfield Authority's governing body, which consists of five individuals, is appointed by the mayor with the approval of the City Council. In addition, the Brownfield Authority's budget is subject to approval by the City Council. There has been no activity in the Brownfield Authority to date.

Separate financial statements for the above discretely presented component units are not prepared.

The City of Romulus Housing Authority (the "Housing Authority") has not been included in the City's reporting entity because the City lacks the ability to impose its will on the Housing Authority under the guidelines of Governmental Accounting Standards Board Statement Number 14. This entity is subject to separate audit requirements.

Jointly Governed Organizations

Jointly governed organizations are discussed in Note 15.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Note 1 - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, federal grant reimbursements will be collected after the period availability; receivables have been recorded for these, along with a "deferred revenue" liability. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Note 1 - Summary of Significant Accounting Policies (Continued)

The City reports the following major governmental fund:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major proprietary fund:

Water and Sewer Fund - The Water and Sewer Fund is used to account for the activities of the water distribution systems and sewage collection system.

Additionally, the City reports the following fund types:

Internal Service Funds - Internal Service Funds account for major vehicle and equipment purchases and maintenance, as well as risk management services provided to other departments of the City on a cost reimbursement basis.

Pension and Other Employee Benefit Trust Funds - The Pension and Other Employee Benefit Trust Funds account for the activities of the Retirees' Insurance Benefit Fund, which accumulates resources for postretirement health benefit payments to qualified retirees.

Agency Funds - The Agency Funds are used to account for assets held by the City in a trustee capacity for others. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements, except for such activity between the governmental and business-type funds. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Note I - Summary of Significant Accounting Policies (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost for services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value, based on quoted market prices. Pooled investment income from the General Fund is generally allocated to each fund using a weighted average of balance for the principal.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts

Property Taxes - Properties are assessed as of December 31 of each year. The related property taxes are billed on July 1 of the following year and became a lien at that time. These taxes are due on September 30 with the final collection date of February 28 before they are added to the county tax rolls, at which time penalties and interest are assessed.

Note 1 - Summary of Significant Accounting Policies (Continued)

The 2004 taxable valuation of the City totaled \$1,235,103,619, on which ad valorem taxes levied consisted of 9.4967 mills for the City's operating purposes, .7000 mills for sanitation, and 1.7155 mills for EPA judgment levy. The ad valorem taxes levied raised approximately \$8,700,000 for operations, \$640,000 for sanitation, and \$2,175,000 for the EPA judgment levy. These amounts are recognized in the respective General Fund, Special Revenue Fund, and Water and Sewer Fund financial statements as tax revenue.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - Restricted asset information is included in Note 7.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$1,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Land improvements	20 years
Infrastructure	20 years
Utility system	50 years
Meters	50 years
Buildings and improvements	33 years
Equipment and machinery	3 to 10 years
Vehicles	12 years

Note I - Summary of Significant Accounting Policies (Continued)

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Employees may receive payment of the accumulated sick leave and vacation balance at the rate determined by union contracts, which vary from unit to unit. A liability is accrued when incurred in the government-wide and proprietary fund financial statements.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

The City is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act), as amended. The following statements represent a brief synopsis of the major provisions of the Act:

1. Budgets must be adopted for the General Fund and Special Revenue Funds.
2. The budgets must be balanced. The balanced budget may include a contribution to or appropriation from fund balance.
3. The budgets must be amended when necessary.
4. Debt cannot be entered into unless permitted by law.
5. Expenditures cannot exceed budget appropriations.
6. Expenditures cannot be made unless authorized in the budget.
7. Public hearings must be held before budget adoptions.

The City adopts its budget on an activity basis (department), which is in accordance with the State's legal requirements and is the level of classification detail at which expenditures may not legally exceed appropriations.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In February, the mayor holds a meeting with all departments. At this time, the finance department provides the necessary budget materials with instructions and discusses intended strategies.
2. In March, the mayor and finance director hold meetings with each department to review proposed spending and activities. Working with the finance director, alternative approaches are sought to provide better services and reduce costs. Departmental recommendations are refined by the mayor according to overall City needs and estimated available revenue.
3. The City Charter provides that the mayor must submit his recommendations on the upcoming year's budget on or before the first day of April. With his line item recommendations, the mayor summarizes major policy and concerns, along with his proposed tax levy and the estimated revenue generated in his transmittal letter located in the supplemental schedules section of this document.

Note 2 - Stewardship, Compliance, and Accountability (Continued)

4. The City Council conducts budget hearings with the mayor and the finance director during the month of April. Citizens are given an opportunity to comment on proposed spending at a City Council public hearing, which is generally held on the first or second Monday in May. Prior to this public hearing, the proposed budget is available to the public in the City Clerk's office for inspection for a period of not less than three weeks. The Council then makes final adjustments to the proposed budget, according to the concerns developed during its public hearings. Under Charter, the City Council must adopt the final budget for the ensuing fiscal year on or before May 15 of each year.
5. The City budget is adopted by resolution, which incorporates the line items in the mayor's recommendations, amendments, and refinements as developed by changing events and concerns established in the Council hearing process, and policy guidelines for expenditure of funds. A vote of four of the seven Council members serving is necessary for budget adoption. The mayor has item veto authority, which he may exercise subsequent to budget adoption.

Budget appropriations lapse at year end; encumbrances are not included as expenditures. Encumbrances outstanding of \$27,200 at June 30, 2005 have been reappropriated into next year's budget. During the current year, the budget was amended in a legally permissible manner. A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the General Fund is presented as required supplemental information. Budgetary comparisons for the Special Revenue Funds can be obtained at City Hall.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, with the following exceptions:

- Operating transfers have been included in the "revenue" and "expenditures" categories rather than as "other financing sources (uses)."
- Reimbursements from other funds have been included in revenue, rather than as a reduction of expenditures.

City of Romulus, Michigan

Notes to Financial Statements June 30, 2005

Note 2 - Stewardship, Compliance, and Accountability (Continued)

State Construction Code Act - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall is as follows:

Shortfall at July 1, 2004		\$ (1,354,821)
Current year building permit revenue		1,371,213
Related expenses:		
Direct costs	\$ 1,319,100	
Estimated indirect costs	<u>96,457</u>	
Total construction code expenses		<u>1,415,557</u>
Cumulative shortfall at June 30, 2005		<u>\$ (1,399,165)</u>

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated two banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all of the options discussed above.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Note 3 - Deposits and Investments (Continued)

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk.

At year end, the City had \$801,910 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. In addition, the City's component units had \$6,243,282 of bank deposits that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy states that the maturity of any investment is not to exceed two years. The City holds investments with maturities exceeding two years at June 30, 2005. At year end, the City had approximately \$37,820 invested in U.S. government investment pools with a weighted average maturity of 82.3 days.

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City's investment policy does not further limit its investment choices.

As of year end, the City had \$13,605,067 invested in mutual funds and non-negotiable CDs that were unrated and \$1,854,849 in mutual funds with an AAA rating from Moody's. The City's component units had \$3,210,400 invested in mutual funds that were unrated, \$279,394 invested in mutual funds with an AAA rating from Standard & Poor's, and \$2,891,095 invested in mutual funds with a Top Tier rating from Donahue.

City of Romulus, Michigan

Notes to Financial Statements June 30, 2005

Note 4 - Receivables

Receivables as of year end for the City's individual major funds and the nonmajor, Internal Service, and fiduciary funds in the aggregate are as follows:

	General Fund	Nonmajor Governmental Funds	Enterprise Fund	Fiduciary Fund	Internal Service Funds	Total
Receivables:						
Taxes	\$ 1,638,995	\$ 115,959	\$ 431,094	\$ -	\$ -	\$ 2,186,048
Accounts	325,604	382,652	2,166,297	215,150	59,810	3,149,513
Note receivable - Metro World Centre, Ltd.	618,264	-	-	-	-	618,264
Special assessment	-	1,363,061	-	-	-	1,363,061
Net receivables	<u>\$ 2,582,863</u>	<u>\$ 1,861,672</u>	<u>\$ 2,597,391</u>	<u>\$ 215,150</u>	<u>\$ 59,810</u>	<u>\$ 7,316,886</u>

The City's Tax Increment Finance Authority has recorded a property tax receivable of approximately \$458,000 related to certain property which the taxpayer claims is exempt from 2004 property taxes. Due to the uncertain nature of this receivable, the City's Tax Increment Finance Authority has recorded an allowance for the same amount.

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Special assessments	\$ 1,318,994	\$ -
Metro World Centre, Ltd.	618,264	-
Delinquent personal property tax	910,655	-
Receivable from other governmental units	261,815	-
Grant payment received prior to meeting all eligibility requirements	-	41,073
Total	<u>\$ 3,109,728</u>	<u>\$ 41,073</u>

City of Romulus, Michigan

Notes to Financial Statements June 30, 2005

Note 5 - Capital Assets

Capital asset activity of the City's governmental, business-type activities, and component units was as follows:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 4,513,782	\$ 21,000	\$ (50,857)	\$ 4,483,925
Construction in progress	1,581,126	52,210	(269,418)	1,363,918
Subtotal	6,094,908	73,210	(320,275)	5,847,843
Capital assets being depreciated:				
Land improvements	473,118	-	-	473,118
Buildings and improvements	8,517,905	69,907	(7,300)	8,580,512
Vehicles	6,649,405	58,475	(475,621)	6,232,259
Equipment and machinery	6,111,329	224,023	(193,061)	6,142,291
Infrastructure	41,094,185	1,152,048	-	42,246,233
Subtotal	62,845,942	1,504,453	(675,982)	63,674,413
Accumulated depreciation:				
Land improvements	377,653	9,057	-	386,710
Buildings and improvements	3,430,047	198,029	(7,300)	3,620,776
Vehicles	3,690,465	153,343	(460,172)	3,383,636
Equipment and machinery	4,424,781	366,415	(192,599)	4,598,597
Infrastructure	12,543,525	2,074,364	-	14,617,889
Subtotal	24,466,471	2,801,208	(660,071)	26,607,608
Net capital assets being depreciated	38,379,471	(1,296,755)	(15,911)	37,066,805
Net capital assets	\$ 44,474,379	\$ (1,223,545)	\$ (336,186)	\$ 42,914,648

City of Romulus, Michigan

Notes to Financial Statements June 30, 2005

Note 5 - Capital Assets (Continued)

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 88,065	\$ -	\$ -	\$ 88,065
Construction in progress	3,231,240	784,360	(2,395,555)	1,620,045
Subtotal	3,319,305	784,360	(2,395,555)	1,708,110
Capital assets being depreciated:				
Buildings	785,130	-	-	785,130
Utility system	68,169,121	3,173,743	-	71,342,864
Meters	1,399,511	71,400	(1,600)	1,469,311
Equipment	294,284	7,200	-	301,484
Subtotal	70,648,046	3,252,343	(1,600)	73,898,789
Accumulated depreciation:				
Buildings	541,310	15,702	-	557,012
Utility system	18,895,596	1,402,328	-	20,297,924
Meters	769,941	54,451	(1,600)	822,792
Equipment	212,435	21,972	-	234,407
Subtotal	20,419,282	1,494,453	(1,600)	21,912,135
Net capital assets being depreciated	50,228,764	1,757,890	-	51,986,654
Net capital assets	<u>\$ 53,548,069</u>	<u>\$ 2,542,250</u>	<u>\$ (2,395,555)</u>	<u>\$ 53,694,764</u>
	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Component units:				
Downtown Development Authority:				
Capital assets not being depreciated:				
Land	\$ 337,699	\$ 19,111	\$ -	\$ 356,810
Construction in progress	-	1,390,823	-	1,390,823
Subtotal	337,699	1,409,934	-	1,747,633
Capital assets being depreciated -				
Buildings	-	130,889	-	130,889
Net capital assets - Downtown				
Development Authority	337,699	1,540,823	-	1,878,522
Tax Increment Finance Authority:				
Capital assets not being depreciated:				
Land	-	1,288,856	-	1,288,856
Construction in progress	-	2,150,711	-	2,150,711
Net capital assets - Tax Increment				
Finance Authority	-	3,439,567	-	3,439,567
Net capital assets - Component units	<u>\$ 337,699</u>	<u>\$ 4,980,390</u>	<u>\$ -</u>	<u>\$ 5,318,089</u>

City of Romulus, Michigan

Notes to Financial Statements June 30, 2005

Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 189,840
Public safety	213,579
Public works	2,086,131
Community and economic development	1,454
Recreation and culture	41,166
Internal Service Fund depreciation is charged to the various functions based on their usage of the asset	<u>269,038</u>

Total governmental activities	<u>\$ 2,801,208</u>
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Business-type activities - Water and sewer	<u>\$ 1,494,453</u>
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Construction Commitments - The City and its Downtown Development Authority have one active construction project at year end for the Senior Center Building. As of June 30, 2005, \$532,374 had been spent for the construction and a balance remains on the contract of \$2,281,528.

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Due to/from Other Funds

Receivable Fund	Payable Fund	Amount
Nonmajor governmental funds	General Fund (major fund)	\$ 31,731
Nonmajor governmental funds	Nonmajor governmental funds	<u>3,381</u>
Total nonmajor governmental funds		35,112
Internal Service Funds	Nonmajor governmental funds	<u>22,573</u>
Total due to/from other funds		<u>\$ 57,685</u>

City of Romulus, Michigan

Notes to Financial Statements June 30, 2005

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Due to/from Primary Government and Component Units

Receivable Fund	Payable Fund	Amount
Primary government - General Fund	Component unit - Tax Increment Finance Authority	\$ 514,293
	Component unit - Economic Development Corporation	89
Total primary government - General Fund		514,382
Primary government - Other nonmajor governmental funds	Component unit - Tax Increment Finance Authority	33,771
	Component unit - Downtown Development Authority	20,857
Total primary government - Other nonmajor governmental funds		54,628
Primary government - Water and Sewer Fund	Component unit - Tax Increment Finance Authority	36,426
Total primary government		<u>\$ 605,436</u>
Component unit - Downtown Development Authority	Primary government - General Fund	\$ 11,871
Component unit - Downtown Development Authority	Primary government - Other nonmajor funds	1,019
Total Downtown Development Authority		<u>\$ 12,890</u>

Interfund balances arise from the centralized disbursement system as well as the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

City of Romulus, Michigan

Notes to Financial Statements June 30, 2005

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund Transfers

	Transfers Out		
	General Fund	Nonmajor Governmental Funds	Total
Transfers in - Nonmajor governmental funds	\$ 390,906	\$ 428,414	\$ 819,320

The transfers from the General Fund were primarily related to the General Fund's portion of debt service expenditures. In addition, the General Fund transferred amounts to the Sanitation Fund to assist with current operations. Remaining transfers were mainly between the City's two street funds to redistribute ACT 51 revenue from the Major Streets Fund to the Local Streets Fund.

Note 7 - Restricted Assets

Restricted assets at June 30, 2005 consist of the following:

Business-type activities:

Cash on deposit at Wayne County	\$ 4,589,558
Cash and investments	<u>2,152,561</u>
Total business-type activities	<u>\$ 6,742,119</u>

Component units - Downtown Development Authority -

Cash and investments	<u>\$ 2,685,426</u>
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The cash on deposit at Wayne County is being held at Wayne County for County sewage disposal system bonds. These restricted assets resulted from property tax collections and are restricted for debt service payments.

The cash and investments for the business-type activities consist of property tax collections held by the City to pay certain Water and Sewer Fund debt service payments.

The cash and investments for the component unit relate to unspent bond proceeds.

Net assets have been restricted for these amounts.

City of Romulus, Michigan

Notes to Financial Statements June 30, 2005

Note 8 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the City. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity can be summarized as follows:

	Interest Rate Range	Maturity Date Range	Maturity Payment Range	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:								
General Obligation Bonds:								
Building Authority Bonds - \$4,700,000	5.00%	2013	\$170,000-\$280,000	\$ 2,205,000	\$ -	\$ (2,205,000)	\$ -	\$ -
Building Authority Bonds - \$2,080,000	2.50% - 3.25%	2013	\$200,000 - \$270,000	-	2,080,000	-	2,080,000	200,000
Beverly Road Bond - \$1,650,000	4.00%-5.10%	2015	\$100,000-\$155,000	1,475,000	-	(95,000)	1,380,000	100,000
Installment purchase agreements -								
\$1,750,064	4.17%-6.30%	2009	\$188,690 - \$213,560	1,121,673	-	(317,858)	803,815	188,690
Special Assessment Bonds -								
Beverly Rd. - \$1,650,000	4.00%-5.10%	2021	\$80,000-\$90,000	1,540,000	-	(95,000)	1,445,000	90,000
Total governmental activities				<u>\$ 6,341,673</u>	<u>\$ 2,080,000</u>	<u>\$ (2,712,858)</u>	<u>\$ 5,708,815</u>	<u>\$ 578,690</u>
Business-type activities - Wayne								
County Contractual Obligations - \$38,513,282	2.00%-6.30%	2022	\$868,426 - \$2,062,841	<u>\$ 29,971,614</u>	<u>\$ -</u>	<u>\$ (1,596,863)</u>	<u>\$ 28,374,751</u>	<u>\$ 1,696,903</u>

City of Romulus, Michigan

Notes to Financial Statements June 30, 2005

Note 8 - Long-term Debt (Continued)

Long-term obligation activity for the component units is as follows:

	Interest Rate Range	Maturity Date Range	Maturity Payment Range	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Tax Increment Finance Authority								
General Obligation Bonds - \$14,070,000	2.00% - 6.75%	2019	\$625,000-\$690,000	\$ 8,320,000	\$ -	\$ (5,695,000)	\$ 2,625,000	\$ 625,000
General Obligation Bonds - \$5,445,000	2.50% - 4.30%	2019	\$285,000 - \$470,000	-	5,445,000	-	5,445,000	285,000
Downtown Development Authority								
General Obligation Bonds - \$2,500,000	2.00% - 3.80%	2013	\$175,000 - \$235,000	1,945,000	-	(170,000)	1,775,000	175,000
General Obligation Bonds - \$3,400,000	2.50%-3.60%	2014	\$300,000 - \$385,000	-	3,400,000	-	3,400,000	300,000
Total component units				\$ 10,265,000	\$ 8,845,000	\$ (5,865,000)	\$ 13,245,000	\$ 1,385,000

Annual debt service requirements to maturity for the above obligations are as follows:

	Governmental Activities			Business-type Activities			Component Units		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 578,690	\$ 217,023	\$ 795,713	\$ 1,696,191	\$ 689,684	\$ 2,385,875	\$ 1,385,000	\$ 426,448	\$ 1,811,448
2007	601,640	191,413	793,053	1,738,739	647,285	2,386,024	1,420,000	390,548	1,810,548
2008	619,925	169,978	789,903	1,785,572	603,736	2,389,308	1,460,000	352,654	1,812,654
2009	638,560	147,868	786,428	1,838,517	558,429	2,396,946	1,510,000	309,910	1,819,910
2010	440,000	127,106	567,106	1,873,906	512,077	2,385,983	850,000	265,391	1,115,391
2011-2015	2,105,000	387,760	2,492,760	9,984,956	1,815,542	11,800,498	4,460,000	853,770	5,313,770
2016-2020	565,000	95,783	660,783	8,588,446	579,799	9,168,245	2,160,000	233,335	2,393,335
2021-2022	160,000	8,160	168,160	868,424	10,493	878,917	-	-	-
Total	\$ 5,708,815	\$ 1,345,091	\$ 7,053,906	\$ 28,374,751	\$ 5,417,045	\$ 33,791,796	\$ 13,245,000	\$ 2,832,056	\$ 16,077,056

Defeased Debt - During the year ended June 30, 2000, the County of Wayne, Michigan, on behalf of the City, defeased certain Downriver Sewage Disposal System 1994 Series A bonds by placing the proceeds in an irrevocable trust with an escrow agent to provide for all future debt services payments on the 1994 Series A bonds. As a result, the bonds are considered defeased and the liability for the bonds has been removed from the City's Enterprise Fund. At June 30, 2005, \$615,000, representing the City's portion of the bonds outstanding, is considered defeased.

City of Romulus, Michigan

Notes to Financial Statements June 30, 2005

Note 8 - Long-term Debt (Continued)

Defeased Debt - During the year, the City issued \$2,080,000 in general obligation bonds with an interest rate ranging from 2.50 percent to 3.25 percent. The proceeds of these bonds were used to advance refund \$2,205,000 of outstanding Building Authority bonds with an interest rate of 5 percent. The proceeds of the bonds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability has been removed from the government-wide statement of net assets. The advance refunding reduced total debt service payments over the next 10 years by approximately \$368,000 and the economic gain on the transaction was approximately \$150,000. At June 30, 2005, \$2,035,000 of bonds outstanding are considered defeased.

In addition, the City's Tax Increment Finance Authority issued \$5,445,000 in general obligation bonds with an interest rate ranging from 2.5 percent to 4.3 percent. The proceeds of these bonds were used to advance refund \$5,695,000 of outstanding Tax Increment Finance Authority bonds with an interest rate ranging from 2.00 percent to 6.75 percent. The proceeds of the bonds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability has been removed from the component units debt in the statement of net assets. The advance refunding reduced total debt service payments over the next 15 years by approximately \$731,000 and the economic gain on the transaction was approximately \$376,000. At June 30, 2005, \$4,890,000 of bonds outstanding are considered defeased.

Note 9 - Reserved/Restricted Fund Balances/Net Assets

Fund balances/net assets have been reserved or restricted for the following purposes:

	General Fund	Nonmajor Governmental Funds	Water and Sewer Fund	Total
Reserved for training grant	\$ 4,804	\$ -	\$ -	\$ 4,804
Reserved for drain maintenance	6,689	-	-	6,689
Reserved for inventory	26,174	46,014	-	72,188
Reserved for grants expenditures	-	478,177	-	478,177
Restricted for debt service	-	-	5,925,646	5,925,646
Total	<u>\$ 37,667</u>	<u>\$ 524,191</u>	<u>\$ 5,925,646</u>	<u>\$ 6,487,504</u>

Note 10 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefit claims and participates in the Michigan Municipal League risk pool for claims relating to employee injuries (workers' compensation) and for claims relating to general liability and property loss. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The City was a member of the Michigan Municipal Risk Management Authority ("MMRMA") risk pool program prior to July 1, 1998. MMRMA operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums were paid annually to MMRMA that the MMRMA used to pay claims up to the retention limits, the ultimate liability for those claims remains with the City. The City no longer maintains a provision for claims incurred prior to July 1, 1998.

Note 11 - Contingencies

Clean Water Act

The City has been named as a defendant in a lawsuit alleging violations of the Clean Water Act occurring in the Downriver Sewage Treatment System. Several other communities, including Wayne County, were also named as defendants. Under the terms of the consent decree, the communities are required to undertake construction projects to expand the capacity of the system and eliminate any violations of the Clean Water Act. These estimated total cost of the project is approximately \$324,000,000, with the City's share estimated to be approximately \$43,000,000. The outstanding balance payable at June 30, 2005 was approximately \$28,000,000. The bonds will be paid through a court-ordered judgment levy. In addition, approximately \$3,000,000 of completion and capital improvement bonds will be issued in 2006.

Note 11 - Contingencies (Continued)

Personal Property Tax Multipliers and Other Tax Appeals

In November 1999, the State Tax Commission approved revised personal property tax tables for utilities. The revised tables affected taxes collected from 1997 to present due to local units of government continuing to use the personal property tax tables in effect prior to 1999. The issue was the subject of a lawsuit brought by several units of government against the State Tax Commission challenging the constitutionality of the new utility personal property tax tables. In April 2002, the revised tables were upheld by the court.

During 2003, the tax tables were again upheld on appeal. The amounts paid to the City in excess of the approved amounts using the new tables would potentially need to be refunded to the utility companies. This could result in refunds, including interest, of approximately \$321,000 from the General Fund as of June 30, 2005. Appeals are still being undertaken by taxing authorities and the matter is not expected to be settled in the next fiscal year. Therefore, the potential refund related to the governmental funds has been recorded as a long-term liability on the government-wide statement of net assets at June 30, 2005.

The City is also a defendant in other tax appeal cases, none of which the outcome can be reasonably assessed at this time. However, as described in Note 4, the City's Tax Increment Finance Authority has recorded a property tax receivable and corresponding allowance related to certain property which the taxpayer claims is exempt from 2004 property taxes. Additionally, the City's Tax Increment Finance Authority received a payment for 2004 property taxes that are being appealed by the taxpayer, who is also claiming that their property is exempt from tax. The City's Tax Increment Finance Authority has recorded a liability of approximately \$490,000 related to this taxpayer's 2004 property taxes.

Department of Public Works (DPW) Building

During 2000, the Wayne County Airport Authority agreed to cover the costs associated with building a new DPW facility in exchange for the parcel of land on which the existing DPW facility was located. The memo of understanding between the two parties indicated that the cost of the new facility was not to exceed \$3.2 million. During 2004, a claim was made by the Wayne County Airport Authority that approximately \$1.3 million was spent constructing the new facility in excess of the original agreed-upon amount. The City is disputing the amount and no liability has been recorded in the government-wide or fund-based statements. The outcome of the matter is uncertain, as it is in its preliminary stages.

Note 12 - Pension Plan - Michigan Municipal Employees' Retirement System

Plan Description - The City participates in the Michigan Municipal Employees' Retirement System (MMERS), an agent multiple-employer defined benefit pension plan that covers certain members of the Police Officers Labor Council and the Police Officers Association of Michigan. The MMERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The MMERS issues a publicly available financial report that includes financial statements and required supplementary information for the MMERS. That report may be obtained by writing to the MMERS at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the MMERS for these employees was established by negotiation with the City's collective bargaining units and requires a contribution from the employees of 5.0 percent of gross wages for Police Officers Labor Council, 4.0 percent of gross wages for Police Officers Association of Michigan, and 2.5 percent of gross wages for the International Association of Firefighters.

Annual Pension Costs - For the year ended June 30, 2005, the City's annual pension cost of \$970,383 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry actual age cost method. Significant actuarial assumptions used include: (a) an 8.0 percent investment rate of return; (b) projected salary increases of 4.5 percent per year plus a percentage based on an age-related scale to reflect merit, longevity, and promotional salary increases; and (c) 2 percent per year cost of living adjustments. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The amortization period is 30 years.

Three-year trend information is as follows:

	Fiscal Year Ended June 30		
	2003	2004	2005
Annual pension costs (APC)	\$ 488,916	\$ 453,915	\$ 970,383
Percentage of APC contributed	100%	100%	100%
Net pension obligation	None	None	None

City of Romulus, Michigan

Notes to Financial Statements June 30, 2005

Note 12 - Pension Plan - Michigan Municipal Employees' Retirement System (Continued)

	Actuarial Valuation as of December 31		
	2002	2003	2004
Actuarial value of assets	\$ 10,682,288	\$ 11,514,397	\$ 12,739,067
Actuarial accrued liability (entry age) (AAL)	\$ 19,646,625	\$ 20,643,883	\$ 24,609,913
Unfunded AAL (UAAL)	\$ 8,964,337	\$ 9,129,486	\$ 11,870,846
Funded ratio	54.4%	55.8%	51.8%
Covered payroll	\$ 3,736,153	\$ 3,730,721	\$ 4,467,009
UAAL as a percentage of covered payroll	239.9%	244.7%	265.7%

Note 13 - Defined Contribution Pension Plan

The City provides pension benefits to all groups not covered in the MMERS plan through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by labor contracts with the approval by the City Council, the City contributes from 5.0 percent to 10.0 percent of employees' gross earnings and employees contribute 1.5 percent to 5.0 percent of earnings. In accordance with these requirements, the City contributed \$497,964 during the current year, and employees contributed \$163,965.

Note 14 - Postemployment Benefits

The City provides health care benefits to substantially all full-time employees upon retirement, in accordance with labor contracts and City personnel policies as approved by the City Council. Currently, 54 retirees are eligible. The City included pre-Medicare retirees and their dependents in its insured health care plan. For certain employee groups, a contribution is required by the participant. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$507,000.

Note 14 - Postemployment Benefits (Continued)

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

Note 15 - Joint Venture

The City is a member of the 34th District Court, which provides services to the city of Romulus, the city of Belleville, and the townships of Huron, Sumpter, and Van Buren. The City has a two-thirds interest in the revenue of the court and provides the annual funding for its operations. During the year, the City received net revenue from the Court of \$744,864. The City is unaware of any circumstances that would cause additional benefit or burden to the participating governments in the near future. Complete financial statements for the 34th District Court can be obtained from the administrative offices at 11131 Wayne Road, Romulus, Michigan.

The City, along with 12 other communities, jointly participates in the Downriver Sewage Disposal System. The City's share of capital assets, restricted assets (for debt service), and related debt is recorded in the Water and Sewer Fund. During the year, the City paid \$2,481,699 for operations of the system and \$2,374,158 for debt service. The City is unaware of any circumstances that would cause additional benefit or burden to the participating governments in the near future, except as discussed in Note 11. Financial statements for the joint venture can be obtained from the administrative offices at 415 Clifford, Detroit, MI 48226.

Required Supplemental Information

City of Romulus, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 2,416,352	\$ 3,271,313	\$ 3,271,313	\$ -
Resources (Inflows)				
Property taxes	9,564,521	9,604,521	9,566,686	(37,835)
Licenses and permits	1,481,000	1,477,500	1,566,526	89,026
Federal sources	76,847	212,047	148,431	(63,616)
State sources	4,187,850	5,986,150	4,309,288	(1,676,862)
Charges for services	1,876,056	1,856,562	1,685,856	(170,706)
Fines and forfeitures	900,000	970,000	792,643	(177,357)
Interest income	300,000	300,050	250,475	(49,575)
Other	175,050	396,950	507,367	110,417
Total resources (inflows)	18,561,324	20,803,780	18,827,272	(1,976,508)
Charges to Appropriations (Outflows)				
General government:				
City Council	64,487	64,526	63,390	1,136
Mayor	245,039	252,987	245,757	7,230
Elections	115,534	133,962	109,954	24,008
Assessor	444,693	581,349	494,690	86,659
Attorney	224,000	226,335	224,745	1,590
Clerk	412,958	419,664	397,017	22,647
Finance department	614,912	630,902	623,313	7,589
Personnel	248,574	250,275	228,626	21,649
Treasurer	394,776	434,880	435,895	(1,015)
Building and grounds	2,365,921	4,228,272	2,331,300	1,896,972
City-owned property	22,000	30,000	27,724	2,276
Cemetery	130,486	137,835	123,975	13,860
Board of Review	2,360	2,260	862	1,398
Tax Tribunal refunds	-	50,000	38,547	11,453
Nondepartmental	358,296	358,296	338,149	20,147
Public safety:				
Police	7,695,087	7,937,166	7,685,566	251,600
Fire	1,970,807	2,054,782	1,911,326	143,456
Building inspection	1,354,101	1,315,242	1,087,860	227,382
Planning and zoning	236,430	249,282	227,595	21,687
Emergency preparedness	105,614	284,011	110,397	173,614
Community and economic development:				
Community service	20,250	20,250	15,250	5,000
Community and development	38,601	39,190	30,618	8,572
Public relations	58,429	59,844	50,457	9,387
Public works:				
Department of Public Works	573,736	608,664	544,373	64,291
Drains-at-large	126,300	131,300	107,266	24,034
Health and welfare:				
Ordinance	304,781	319,513	263,580	55,933
Animal control	206,441	208,291	199,055	9,236

City of Romulus, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Charges to Appropriations (Outflows) (Continued)				
Recreation and cultural:				
Recreation	\$ 631,460	\$ 648,540	\$ 599,043	\$ 49,497
Library	312,690	313,634	250,624	63,010
Historical	1,075	1,075	1,047	28
Contingencies	774,692	350,948	-	350,948
Unresolved claims	50,000	-	-	-
Transfers to other funds	433,470	359,175	390,906	(31,731)
Total charges to appropriations (outflows)	<u>20,538,000</u>	<u>22,702,450</u>	<u>19,158,907</u>	<u>3,543,543</u>
Fund Balance - End of year	<u>\$ 439,676</u>	<u>\$ 1,372,643</u>	<u>\$ 2,939,678</u>	<u>\$ 1,567,035</u>

Other Supplemental Information

City of Romulus, Michigan

	Nonmajor Special Revenue Funds				
	Major Streets	Local Streets	Cable TV	911	Sanitation
Assets					
Cash and investments	\$ 1,507,894	\$ 158,192	\$ 195,790	\$ 272,523	\$ 56,856
Taxes receivable	-	-	-	-	115,959
Special assessment receivable	-	-	-	-	-
Accounts receivable	263,194	262	60,496	27,389	-
Due from other funds	3,381	-	-	-	31,731
Due from component units	-	-	-	-	33,771
Due from other governmental units	175,733	65,825	-	-	-
Inventories	18,406	27,608	-	-	-
Total assets	<u>\$ 1,968,608</u>	<u>\$ 251,887</u>	<u>\$ 256,286</u>	<u>\$ 299,912</u>	<u>\$ 238,317</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 311,753	\$ 35,205	\$ -	\$ 5	\$ 158,915
Accrued wages	6,094	9,140	32,703	-	-
Retainage payable	-	10,284	-	-	-
Due to other funds	-	3,381	-	-	-
Accounts payable to component units	-	-	-	-	1,019
Deferred revenue	261,815	-	-	-	78,383
Total liabilities	579,662	58,010	32,703	5	238,317
Fund Balances					
Reserved	18,406	27,608	-	-	-
Unreserved:					
Designated	1,084,530	14,394	83,830	54,457	-
Undesignated	286,010	151,875	139,753	245,450	-
Total fund balances	1,388,946	193,877	223,583	299,907	-
Total liabilities and fund balances	<u>\$ 1,968,608</u>	<u>\$ 251,887</u>	<u>\$ 256,286</u>	<u>\$ 299,912</u>	<u>\$ 238,317</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005**

Community Development Block Grant	Street Lighting	Narcotics Enforcement	Nonmajor Debt Service Fund	Nonmajor Capital Projects Fund	Total Nonmajor Governmental Funds
\$ 25,925	\$ 51,635	\$ 447,945	\$ 111,180	\$ 168,802	\$ 2,996,742
-	-	-	-	-	115,959
-	-	-	-	1,363,061	1,363,061
-	31,311	-	-	-	382,652
-	-	-	-	-	35,112
20,857	-	-	-	-	54,628
59,610	-	-	-	-	301,168
-	-	947	-	-	46,961
<u>\$ 106,392</u>	<u>\$ 82,946</u>	<u>\$ 448,892</u>	<u>\$ 111,180</u>	<u>\$ 1,531,863</u>	<u>\$ 5,296,283</u>
\$ 2,648	\$ 32,893	\$ 3,797	\$ -	\$ -	\$ 545,216
-	-	-	37,547	-	85,484
-	-	-	-	-	10,284
-	-	-	22,573	-	25,954
-	-	-	-	-	1,019
70,662	-	-	-	1,318,994	1,729,854
73,310	32,893	3,797	60,120	1,318,994	2,397,811
33,082	-	445,095	-	-	524,191
-	22,550	-	34,871	-	1,294,632
-	27,503	-	16,189	212,869	1,079,649
33,082	50,053	445,095	51,060	212,869	2,898,472
<u>\$ 106,392</u>	<u>\$ 82,946</u>	<u>\$ 448,892</u>	<u>\$ 111,180</u>	<u>\$ 1,531,863</u>	<u>\$ 5,296,283</u>

City of Romulus, Michigan

	Special Revenue Funds				
	Major Streets	Local Streets	Cable TV	911	Sanitation
Revenue					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ 642,700
Federal sources	-	-	-	-	-
State sources	1,086,475	406,896	-	-	-
Fines and forfeitures - State	-	-	-	-	-
Interest income	33,526	2,519	4,838	4,407	2,395
Other	44,625	118,117	119,933	160,518	213
Total revenue	1,164,626	527,532	124,771	164,925	645,308
Expenditures					
Current:					
General government	-	-	178,740	-	-
Public safety	-	-	-	70,241	-
Public works	1,036,724	1,116,184	-	-	849,054
Debt service	-	-	-	-	-
Total expenditures	1,036,724	1,116,184	178,740	70,241	849,054
Excess of Revenue Over (Under) Expenditures	127,902	(588,652)	(53,969)	94,684	(203,746)
Other Financing Sources (Uses)					
Bond proceeds	-	-	-	-	-
Amounts deposited with escrow agent	-	-	-	-	-
Transfers in	-	284,119	-	-	101,731
Transfers out	(428,414)	-	-	-	-
Total other financing sources (uses)	(428,414)	284,119	-	-	101,731
Net Change in Fund Balances	(300,512)	(304,533)	(53,969)	94,684	(102,015)
Fund Balances - July 1, 2004	1,689,458	498,410	277,552	205,223	102,015
Fund Balances - June 30, 2005	<u>\$ 1,388,946</u>	<u>\$ 193,877</u>	<u>\$ 223,583</u>	<u>\$ 299,907</u>	<u>\$ -</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2005

Community Development Block Grant	Street Lighting	Narcotics Enforcement	Nonmajor Debt Service Fund	Nonmajor Capital Projects Fund	Total Nonmajor Governmental Funds
\$ -	\$ 327,486	\$ -	\$ -	\$ -	\$ 970,186
280,259	-	240,909	-	-	521,168
-	-	-	-	-	1,493,371
-	-	139,569	-	-	139,569
-	2,794	7,393	2,287	7,917	68,076
-	-	791	-	160,797	604,994
280,259	330,280	388,662	2,287	168,714	3,797,364
280,493	-	-	-	-	459,233
-	-	215,387	-	-	285,628
-	351,057	-	37,694	-	3,390,713
-	-	-	-	319,266	319,266
280,493	351,057	215,387	37,694	319,266	4,454,840
(234)	(20,777)	173,275	(35,407)	(150,552)	(657,476)
-	-	-	2,076,673	-	2,076,673
-	-	-	(2,321,752)	-	(2,321,752)
-	-	-	276,675	156,795	819,320
-	-	-	-	-	(428,414)
-	-	-	31,596	156,795	145,827
(234)	(20,777)	173,275	(3,811)	6,243	(511,649)
33,316	70,830	271,820	54,871	206,626	3,410,121
<u>\$ 33,082</u>	<u>\$ 50,053</u>	<u>\$ 445,095</u>	<u>\$ 51,060</u>	<u>\$ 212,869</u>	<u>\$ 2,898,472</u>

City of Romulus, Michigan

Other Supplemental Information Combining Statement of Net Assets Internal Service Funds June 30, 2005

	Vehicle and Equipment	Computer and Equipment	Property and Liability Self- Insurance Fund	Long-term Disability Self- Insurance Fund	Totals
Assets					
Current assets:					
Cash and investments	\$ 760,782	\$ 523,715	\$ 354,958	\$ 33,439	\$ 1,672,894
Accounts receivable	-	59,810	-	-	59,810
Due from other funds	-	22,573	-	-	22,573
Inventories	28,195	-	-	-	28,195
Total current assets	788,977	606,098	354,958	33,439	1,783,472
Noncurrent assets - Capital assets	3,272,563	29,063	-	-	3,301,626
Total assets	4,061,540	635,161	354,958	33,439	5,085,098
Liabilities					
Current liabilities:					
Accounts payable	35,953	-	-	-	35,953
Claims payable	-	-	521	-	521
Accrued wages	7,176	1,396	-	-	8,572
Current portion of compensated absences	21,383	8,760	-	-	30,143
Current portion of long-term debt	188,690	-	-	-	188,690
Total current liabilities	253,202	10,156	521	-	263,879
Noncurrent liabilities:					
Provision for compensated absences - Net of current portion	5,346	2,190	-	-	7,536
Long-term debt - Net of current portion	615,125	-	-	-	615,125
Total liabilities	873,673	12,346	521	-	886,540
Net Assets					
Invested in capital assets - Net of related debt	2,468,748	29,063	-	-	2,497,811
Unrestricted	719,119	593,752	354,437	33,439	1,700,747
Total net assets	<u>\$ 3,187,867</u>	<u>\$ 622,815</u>	<u>\$ 354,437</u>	<u>\$ 33,439</u>	<u>\$ 4,198,558</u>

City of Romulus, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenses, and Changes in Net Assets Internal Service Funds Year Ended June 30, 2005

	Vehicle and Equipment	Computer and Equipment	Property and Liability Self- Insurance Fund	Long-term Disability Self- Insurance Fund	Totals
Operating Revenue					
Charges to other funds	\$ 1,216,053	\$ 358,773	\$ 510,000	\$ -	\$ 2,084,826
Federal revenue	2,188	-	-	-	2,188
Other	61,618	-	-	-	61,618
Total operating revenue	1,279,859	358,773	510,000	-	2,148,632
Operating Expenses					
Salaries	298,449	54,488	-	-	352,937
Operating supplies	12,789	11,089	-	-	23,878
Repairs and maintenance	207,980	87,534	-	-	295,514
Gas and oil	213,669	-	-	-	213,669
Insurance	183,600	15,300	579,378	17,204	795,482
Fringe benefits	151,430	7,359	-	-	158,789
Miscellaneous	662	14,658	-	-	15,320
Depreciation	266,523	2,518	-	-	269,041
Contractual services	48,797	37,841	-	-	86,638
Claims and legal	-	-	53,410	-	53,410
Total operating expenses	1,383,899	230,787	632,788	17,204	2,264,678
Operating Income (Loss)	(104,040)	127,986	(122,788)	(17,204)	(116,046)
Nonoperating Revenue (Expenses)					
Investment income	16,476	5,571	434	1,001	23,482
Interest expense	(43,544)	-	-	-	(43,544)
Gain on sale of fixed assets	6,448	-	-	-	6,448
Total nonoperating revenue (expenses)	(20,620)	5,571	434	1,001	(13,614)
Net Income (Loss)	(124,660)	133,557	(122,354)	(16,203)	(129,660)
Net Assets - Beginning of year	3,312,527	489,258	476,791	49,642	4,328,218
Net Assets - End of year	<u>\$ 3,187,867</u>	<u>\$ 622,815</u>	<u>\$ 354,437</u>	<u>\$ 33,439</u>	<u>\$ 4,198,558</u>

City of Romulus, Michigan

Other Supplemental Information Combining Statement of Cash Flows Internal Service Funds Year Ended June 30, 2005

	Vehicle and Equipment	Computer and Equipment	Property and Liability Self- Insurance Fund	Long-term Disability Self- Insurance Fund	Totals
Cash Flows from Operating Activities					
Receipts from other funds	\$ 1,279,858	\$ 308,317	\$ 510,000	\$ -	\$ 2,098,175
Payments to suppliers	(670,982)	(169,391)	(632,788)	(17,204)	(1,490,365)
Payments to employees	(453,882)	(60,472)	-	-	(514,354)
Net cash provided by (used in) operating activities	154,994	78,454	(122,788)	(17,204)	93,456
Cash Flows from Capital and Related Financing Activities					
Proceeds from the sale of fixed assets	21,897	-	-	-	21,897
Principal paid on long-term debt	(317,858)	-	-	-	(317,858)
Interest paid on long-term debt	(43,544)	-	-	-	(43,544)
Purchase of capital assets	(58,475)	(20,576)	-	-	(79,051)
Net cash used in capital and related financing activities	(397,980)	(20,576)	-	-	(418,556)
Cash Flows from Investing Activities - Investment income	16,476	5,571	434	1,001	23,482
Net Increase (Decrease) in Cash and Cash Equivalents	(226,510)	63,449	(122,354)	(16,203)	(301,618)
Cash and Cash Equivalents - July 1, 2004	987,292	460,266	477,312	49,642	1,974,512
Cash and Cash Equivalents - June 30, 2005	\$ 760,782	\$ 523,715	\$ 354,958	\$ 33,439	\$ 1,672,894
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities					
Operating income (loss)	\$ (104,040)	\$ 127,986	\$ (122,788)	\$ (17,204)	\$ (116,046)
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Depreciation	266,523	2,518	-	-	269,041
Changes in assets and liabilities:					
Receivables	-	(50,456)	-	-	(50,456)
Inventory	10,737	-	-	-	10,737
Accounts payable	(14,223)	(2,969)	-	-	(17,192)
Accrued and other liabilities	(4,003)	1,375	-	-	(2,628)
Due to other funds	-	-	-	-	-
Net cash provided by (used in) operating activities	\$ 154,994	\$ 78,454	\$ (122,788)	\$ (17,204)	\$ 93,456

City of Romulus, Michigan

Other Supplemental Information Combining Statement of Assets and Liabilities Agency Funds June 30, 2005

	Revolving Fund	General Tax Fund	Current Tax Fund	Delinquent Personal Property Tax Fund	Payroll Fund	Totals
Assets						
Cash and investments	\$ 3,145,357	\$ 380,715	\$ (21,970)	\$ 275,722	\$ -	\$ 3,779,824
Accounts receivable	501	-	-	-	-	501
Prepaid expenses	-	-	-	-	163,379	163,379
Due from other governmental units	-	-	252,557	3,016	3,096	258,669
Total assets	<u>\$ 3,145,858</u>	<u>\$ 380,715</u>	<u>\$ 230,587</u>	<u>\$ 278,738</u>	<u>\$ 166,475</u>	<u>\$ 4,202,373</u>
Liabilities						
Accounts payable	\$ 641	\$ -	\$ -	\$ -	-	\$ 641
Due to other governmental units	195,294	380,715	230,587	183,917	-	990,513
Accrued and other liabilities	2,949,923	-	-	94,821	166,475	3,211,219
Total liabilities	<u>\$ 3,145,858</u>	<u>\$ 380,715</u>	<u>\$ 230,587</u>	<u>\$ 278,738</u>	<u>\$ 166,475</u>	<u>\$ 4,202,373</u>

City of Romulus, Michigan

**Federal Awards
Supplemental Information
June 30, 2005**

City of Romulus, Michigan

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Independent Auditor's Report

To the Honorable Mayor
and Members of the City Council
City of Romulus, Michigan

We have audited the basic financial statements of the City of Romulus, Michigan for the year ended June 30, 2005 and have issued our report thereon dated November 1, 2005. Those basic financial statements are the responsibility of the management of the City of Romulus, Michigan. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the City of Romulus, Michigan taken as a whole. The accompanying schedule of expenditures of federal awards and reconciliation of basic financial statements federal revenue with schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

November 1, 2005

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Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards*

To the Honorable Mayor
and Members of the City Council
City of Romulus, Michigan

We have audited the financial statements of the City of Romulus, Michigan as of and for the year ended June 30, 2005 and have issued our report thereon dated November 1, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Romulus, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Romulus, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Honorable Mayor
and Members of the City Council
City of Romulus, Michigan

This report is intended solely for the information and use of the City Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

November 1, 2005

**Report on Compliance with Requirements Applicable to Each Major Program
and on Internal Control Over Compliance in Accordance with OMB Circular A-133**

To the Honorable Mayor
and Members of the City Council
City of Romulus, Michigan

Compliance

We have audited the compliance of the City of Romulus, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2005. The major federal program of the City of Romulus, Michigan is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City of Romulus, Michigan's management. Our responsibility is to express an opinion on the City of Romulus, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Romulus, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Romulus, Michigan's compliance with those requirements.

In our opinion, the City of Romulus, Michigan complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005.

To the Honorable Mayor
and Members of the City Council
City of Romulus, Michigan

Internal Control Over Compliance

The management of the City of Romulus, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Romulus, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

November 1, 2005

City of Romulus, Michigan

Schedule of Expenditures of Federal Awards Year Ended June 30, 2005

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Federal Expenditures
U.S. Department of Housing and Urban Development - Passed through Urban Community Development Block Grant - Wayne County, Michigan:				
2005 Program year	14.218		\$ 306,000	\$ 140,646
2004 Program year	14.218		188,000	139,596
Senior Center Construction	14.218		2,404,000	<u>458,618</u>
Total U.S. Department of Housing and Urban Development				738,860
U.S. Environmental Protection Agency - Passed through Wayne County Department of Environment - Rouge River Wet Weather Demonstration Project	66.606	XP995743-08	17,600	12,545
U.S. Department of Energy - Passed through the State of Michigan - Bio-Diesel Fuel Incentive	81.041	PLA-03-41	7,500	2,188
U.S. Department of Forestry - Passed through the State of Michigan:				
Emerald Ash Borer Tree Planting Grant	10.664	EAB 04-36	20,000	17,618
Emeral Ash Borer Tree Removal	10.025	79IN400298	34,128	<u>33,512</u>
Total U.S. Department of Forestry				51,130
Federal Emergency Management Agency - Passed through the Michigan Department of State Police:				
Emergency Management Performance Grants - Interagency Hazardous Materials Public Sector Training and Planning Grants	97.042	various	69,931	69,931
State and Local All Hazards Emergency Operations Planning - State Domestic Preparedness Equipment Support Program	83.557	PDM02	3,246	<u>3,246</u>
Total Federal Emergency Management Agency				73,177

City of Romulus, Michigan

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2005

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Federal Expenditures
U.S. Department of Justice:				
Asset Forfeiture and Money Laundering Section	16.unknown	DAG-72	\$ -	\$ 112,965
2002 Local Law Enforcement Block Grant	16.592	2002-LB-BX-2293	5,521	5,521
2003 Local Law Enforcement Block Grant	16.592	2003-LB-BX-0806	6,191	<u>6,191</u>
Total U.S. Department of Justice				124,677
Federal Help America Vote Act of 2002 - Passed through the				
State of Michigan	39.011	HAVA	103,996	<u>103,996</u>
Total federal awards				<u><u>\$ 1,106,573</u></u>

City of Romulus, Michigan

Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2005

Revenue from federal sources - As reported on financial statements within the governmental funds	\$ 669,599
Revenue from federal sources - As reported on financial statements within the proprietary funds	14,733
Federal revenue not reported in the financial statements:	
Community Development Block Grant - Senior Center Construction	458,601
Help America Vote Act	103,996
Federal revenue reported in the financial statements, not expended in the current period:	
Asset Forfeiture and Money Laundering Section	(127,944)
Emergency Management Performance Grants	<u>(12,412)</u>
Federal expenditures per the schedule of expenditures of federal awards	<u><u>\$ 1,106,573</u></u>

City of Romulus, Michigan

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2005

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Romulus, Michigan and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Noncash Assistance

The value of the noncash assistance received was determined in accordance with the provisions of OMB Circular A-133.

Summary of Noncash Assistance - The grantee received the following noncash assistance during the year ended June 30, 2005 that is included on the schedule of expenditures of federal awards:

Federal Program	CFDA		Amount
	Number	Description	
Federal Help America Vote Act of 2002	39.011	Voting machines	\$ 103,996

City of Romulus, Michigan

Schedule of Findings and Questioned Costs Year Ended June 30, 2005

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes X None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major program(s):

CFDA Number(s)	Name of Federal Program or Cluster
14.218	Community Development Block Grant

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? _____ Yes X No

City of Romulus, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2005

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

None



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November 1, 2005

Honorable Mayor and Members
of the City Council
City of Romulus
11111 Wayne Road
Romulus, MI 48174

Dear Mayor and City Council Members:

We recently completed our audit of the basic financial statements of the City of Romulus, Michigan for the year ended June 30, 2005. As a result of our audit, we have the following comments and recommendations for your review and consideration.

STATE SHARED REVENUE

The adopted budget for the State of Michigan's fiscal year 2005/2006 provides for both constitutional and statutory revenue sharing at approximately \$1.1 billion, which is basically the fiscal year 2004/2005 funding level. In essence, no further reductions to revenue sharing below the current FY 04/05 funding level are being proposed. During the budget deliberation process over the spring and summer, cuts were proposed by the Legislature to revenue sharing and then subsequently restored as part of the finalized budget negotiations.

Even though revenue sharing is budgeted by the State to stay constant at prior year funding levels, continued caution should be exercised when budgeting this line item. While it is good news that revenue sharing may be maintained at current levels and sales tax revenue would have supported an increase to total state shared revenue payments fiscal years 2004/2005 and 2005/2006, the appropriation in the State's budget for revenue sharing payments is over \$500 million less annually than amounts provided for in law and based on actual sales tax collections. There appears to be no long term solution to the State's structural deficit in its General Fund and as long as this condition exists revenue sharing remains at risk and a return to past funding levels is not likely in the foreseeable future.

As a result of changes made by the State to revenue sharing last year, counties were required to move their property tax levy date for their operating millage from December to July in July 2005. A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out.

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STATE SHARED REVENUE (continued)

State shared revenue accounts for approximately 12% of the City's total General Fund revenue. The table below details state shared revenue for the City over the past five years broken out by statutory and constitutional portions. In addition, it details the total decrease in state shared revenue experienced by the City compared to the State's fiscal year 2000.

State Fiscal Year	Constitutional	Statutory	Total	Decrease from 2000
2000	\$1,371,863	\$1,552,124	\$2,923,987	\$-
2001	\$1,491,157	\$1,358,760	\$2,849,917	\$74,070 (2.5%)
2002	\$1,506,347	\$1,203,989	\$2,710,336	\$213,651 (7.3%)
2003	\$1,531,849	\$1,018,967	\$2,550,816	\$373,171 (12.8%)
2004	\$1,515,209	\$777,344	\$2,292,553	\$631,434 (21.6%)
2005	\$1,551,370	\$716,194	\$2,267,564	\$656,423 (22.4%)

As the table above indicates, constitutional revenue sharing has actually increased since 2000 (as State sales tax collections have grown). If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the City has approximately \$716,194 at risk in its General Fund budget based on 2005 funding levels. We will continue to update the City as developments occur.

TRANSPORTATION MATTERS

The State experienced lower than anticipated Act 51 receipts for the State's 2004/2005 fiscal year which ended September 30, 2005. The Michigan Department of Transportation reported that receipts through the six month period ended April 30, 2005 were 4% behind last year. Plante & Moran publishes annually forecasted Act 51 distribution rates which we receive from the State and are based on its forecast of anticipated collections at the State level. If actual collections are less than amounts forecasted by the Michigan Department of Transportation, this could likely result in revenue less than budgeted amounts in the City's Major and Local Street Fund. The lower than anticipated collections impact the City's fiscal year 2004/2005 and could impact 2005/2006 budgets as well. Again, while the Michigan Department of Transportation publishes Act 51 distribution rates, based on recent trends, we encourage the City to consider budgeting in future periods amounts less than those projected by the State.

Like many other local governments, Act 51 distributions to the City of Romulus have not been sufficient to meet all the operating, maintenance and capital needs of the City's Local Street Fund. To properly maintain and improve the City's local street system over the last several years, the City has had to use fund balance in the Local Street Fund. At June 30, 2002, the City had approximately \$1.2 million in fund balance in the Local Street Fund. At June 30, 2005, approximately \$194,000 remains in fund balance in

TRANSPORTATION MATTERS (continued)

the Local Street Fund. The City will continue to experience needs in its Local Street Fund. Given the lack of adequate funding through Act 51 distributions, we encourage the City to review its alternatives to ensure necessary funding is available. Options include: reviewing cost allocations between the Major and Local Street Funds; a voted tax to support road operation, maintenance and capital needs; special assessment for local road construction/replacement; transfers from the Major Street Fund as allowed for by law. The City may want to quantify its road construction/capital needs in the coming years by completing a long-term capital improvement plan. Additionally, as the City is aware, excess transfers from the Major Street Fund to the Local Street Fund require the City to have an asset management system for its roads.

LONG TERM PLANNING

Many Michigan local governments continue to struggle with financial challenges (in particular, local governments that are more fully developed). The main causes of fiscal distress remain the decrease in funding of state shared revenue as a result of the State's unstable budget situation/continuing structural deficit, limitations in Michigan's property tax system documented by the Michigan Municipal League in a study published last year, other issues with Michigan's municipal finance model and legacy costs (pensions, retiree health care costs, etc.). Despite all of these challenges, the City of Romulus has been able to maintain its financial condition. This has been accomplished through cost control in the General Fund as General Fund revenue levels have only increased about 2.4% from 2003 to 2005. The City's property tax revenue has accounted for the restricted growth in General Fund revenue (even though the property tax millage rate has declined). Total General Fund expenditures for the City of Romulus in 2002 were approximately \$18.7 million compared to approximately \$19.2 million in 2005 (average increase per year of less than .9%).

The City's financial management practices over the last several years has allowed it to maintain an unreserved/undesignated General Fund fund balance of approximately \$1.7 million at June 30, 2005. The City has an additional \$1.2 million designated to balance its 2005/2006 fiscal year budget. Looking forward, the State's structural budget deficit remains unsolved which will continue to threaten revenue sharing funding levels. Absent changes in Michigan's municipal finance model or additional voter approved taxing authority, only expanding the City's tax base will provide significant new revenue sources for the City. We continue to encourage the City to consider these trends as part of its annual budget process. Additionally, the City may want to consider developing a five year financial model (that takes into consideration both operating and capital costs). A multiple year financial model can provide the City with another tool to assist with decision making as financial challenges continue and to measure the impact of the current economic environment over a multiple year period on its remaining General Fund fund balance.

INTERNAL CONTROL CONSIDERATIONS

This year was the second year that we, as your City's auditors, implemented Statement on Auditing Standards Number 99 (referred to as SAS 99) entitled *Consideration of Fraud in a Financial Statement Audit*. SAS 99 requires additional procedures to be performed during the audit engagement. As a result, several of the comments below resulted directly from the additional procedures applied through SAS 99.

Account reconciliations – We commend the City on improving the timeliness of its reconciliation process for several accounts from an annual basis to a monthly basis. We noted several accounts in various funds with receivable balances where detail listings are not being maintained and reconciled to the general ledger, including delinquent personal property taxes receivable as in the past. We continue to encourage the City to develop a process to ensure appropriate account reconciliations are being performed and differences are addressed throughout the year. This will require the effort of multiple departments within the City. We also encourage the City to document (through signoffs) the review of account reconciliations.

Property tax distributions – During the audit, we noted that the Current Tax Fund was over-distributed by approximately \$170,000 for the 2004/2005 collection year. While reviewing the distributions, it came to our attention that the City had over-distributed the 2005/2006 current tax collection by approximately \$3.5 million. It appears that the over-distributions occurred because the City does not have a process to reconcile planned distributions with cash collected, prior to remitting the funds to the various units of government. We strongly encourage the City's Treasurer's office to review its distributions procedures, to ensure the appropriate controls are in place to ensure monies are distributed accurately and timely to the other governmental units. As we have indicated in past years, the City's tax billing and collection process is very complex, given the combination of school districts, tax increment financing authorities and abated properties within the City as well the significant volume of laws and regulations governing this area. In the past, the Treasurer's Office has worked with the Finance Department and the Assessor's office to review and improve the tax billing and collection process. In light of recent developments, we strongly encourage that this working group meet again to review current practices and issues. As part of this process, the City should also review the procedure for remitting delinquent personal property taxes to Wayne County for parcels located in a tax increment financing district. The City may have the ability to recover additional monies from Wayne County related to past years.

Cash receipt system – It has come to our attention that, on occasion, the City's cash receipt system does not perform an automatic cash update to the general ledger. As a result, the City's Finance Department must post manual journal entries in order to ensure the cash is properly reflected in the general ledger. We encourage the City to further analyze this matter to ensure transactions are being timely recorded without the Finance Department having to detect the un-posted cash update and record a manual journal entry. It has come to our attention that an individual within the Treasurer's Office who is responsible for cash receipting is also making the daily deposits to the bank. We recommend that the City segregate these two functions to separate staff members within the Treasurer's Office.

INTERNAL CONTROL CONSIDERATIONS (continued)

Investment policy – During the year, the City adopted Governmental Accounting Standards Board Statement Number 40, which now dictates the required disclosures in the City's financial statements regarding its deposits and investments (footnote 3 in the financial statements). GASB 40 also contains more requirements to be considered in the City's investment policy (i.e. policy regarding custodial credit risk, etc.). Also, our understanding of the City's current investment policy is that the policy limits the maximum maturity of investments to 2 years. During our review of the City's investments at June 30, 2005, several of the holdings appeared to have maturity dates greater than 2 years. In certain instances, brokers utilized by the Treasurer's Office have represented that the City can liquidate these investments prior to the maturity date without penalty. In these instances though, the City is still subject to interest rate risk. We recommend that the City evaluate its investment policy in light of these matters.

Credit card policy – Currently, the City has a credit card policy that was adopted in January 2002. We recommend that the City review and update its credit card policy to reflect current operating practices.

Payroll matters – During our payroll testing, we noted several instances where the City's payroll department did not receive detailed time reports for part-time firefighters. It is also our understanding that the compensation policy related to part-time firefighters has not been updated recently. We encourage the City's Fire Department to review its policy regarding part-time firefighter compensation and ensure all appropriate items are documented, as well as ensure the City's payroll department is forwarded sufficient detail for hours worked to ensure accurate and timely payment.

We noted last year that the same individual is responsible for processing payroll is also able to adjust employee pay rates. We understand that the City is in the process of a software update that will result in segregation of these duties.

OTHER FINANCIAL MATTERS

Downtown Development Authority (DDA) Plan – Over the past several years, the unrestricted net assets (i.e. those assets available for spending) in the DDA have been declining. It is our understanding that several projects are planned within the DDA in the next few years. We encourage the City to review its plan for the district to ensure adequate funding sources are available for these projects.

Water and Sewer Fund – Over the last several years, the City has experienced an increase in its water loss percentage (from about 6% in 2002 to over 21% in 2005). Water loss is defined as the difference between water purchased by the City of Romulus from the City of Detroit and the water sold to City of Romulus retail customers. It is normal to have some level of water loss as all water purchased from the City of Detroit by Romulus is not sold to retail customers (i.e. use by fire hydrants, main breaks, etc.). While it is normal for there to be some level of water loss, the City has been experiencing a higher percentage than is typically expected. In October 2005, we were informed that the City had located and corrected what was likely the major cause of the City's increased water loss. We encourage the City to continue to monitor its water loss. Additionally, the Water and Sewer Fund has utilized significant working capital in recent years on improvements to the system and for operation and maintenance. While the City periodically reviews rates as part of its budget process, we encourage the City to perform a cost of service study to review the components of its rate structure, the capital needs of this utility in the coming years and the overall impact of these matters on its rates.

OTHER FINANCIAL MATTERS (continued)

Outstanding matters with Wayne County – The City has multiple outstanding matters open with Wayne County including matters related to receivables and payables for construction projects, etc. Some of these matters go back many years. We understand that Wayne County has also filed a claim against the City related to the costs associated with the City's new DPW building. That matter is disclosed in the City's financial statements. Given the number of matters that exist between the parties and the span of years involved in certain cases, we encourage the City to document a consolidated list of these matters for its records and for use in its interactions with the County.

Retiree Health Care Costs – Health care costs in the private and public sectors have continued to increase exponentially in recent years. The City also provides retiree health care to qualified individuals and has begun setting monies aside to pre-fund this obligation (rather than operate on a "pay as you go basis"). Several years ago, the City took action to adopt the provisions of Public Act 149 of 1999 which allows the City to invest monies set aside for retiree health care in accordance with the public pension investment act (as opposed to the general investment act requirements governing the City's surplus operating monies which is much more restrictive). While the City took the necessary steps to comply with Public Act 149 of 1999, the City has not begun investing monies set aside for this purpose using some of the more aggressive vehicles allowed for. We encourage the City to review its plan for these monies. As we indicated last year, a new accounting pronouncement (GASB 45) we will require the City in 2009 to begin measuring and recording the cost of providing retiree health care coverage over the working life of its employees, rather than at the time health care premiums are paid. We encourage the City to engage an actuary to determine more precisely the impact of this new accounting pronouncement on the City's financial statement and budget.

OTHER LEGISLATIVE ISSUES

Local Government Finance Model -This spring, the Governor issued an Executive Order assembling a Local Government Fiscal Task Force to study the financial challenges of Michigan local governments. While their report was originally due by November 30, 2005, the Local Government Fiscal Task Force did not hold its first meeting until September 2005. The findings and recommendations of this task force are not expected to be released until 2006. Unrelated to the Local Government Fiscal Task Force, Citizens Research Council is conducting a study focused on documenting the nature and extent of structural fiscal problems facing local governments and to catalogue local services and activities for local units (with the intention that local governments will use this information to study the possibility of greater collaborative efforts to optimize government resources).

Tax Matters - The Governor and Legislature are working on a significant business tax reform plan. The major focus of their efforts is around the Michigan Single Business Tax. The business tax reform plans appear to spare local governments from any negative impact of the changes. A key component to most of the tax restructuring proposals is a significant credit on personal property taxes paid by certain businesses. Many questions have arisen such as who determines the property that qualifies for credit, how will local governments be reimbursed by the State for the lost tax revenue as is the stated intention, etc. The full impact on local government from these potential changes cannot be determined yet. There has also been discussion about plans to address a loophole in property tax assessments related to commercial property (known as WPW).

OTHER LEGISLATIVE ISSUES (continued)


Tax Matters (continued)

During the State's fiscal year 2005/2006 budget discussions, a proposal was introduced to put certain municipal operations that are in competition with the private sector on an equal playing field by requiring them to pay certain state taxes paid by the private sector. The main target appears to be municipal golf course operations but other recreation operations could become part of the scope. While there have been hearings on the subject, the subject has not received as much attention recently.

We would like to thank the Finance Department (particularly Debra Hoffman and Abbie Akins), as well as all of the City of Romulus' personnel for their assistance and cooperation during the audit. We appreciate the opportunity to serve as your auditors. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC



Frank W. Audia



Stacey L. Reeves